GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:3619
ANSWERED ON:16.12.2005
STATE FINANCIAL CORPORATIONS
Chitthan Shri N.S.V.

Will the Minister of FINANCE be pleased to state:

(a) whether the Government is aware that most of the State Financial Corporations (SFCs) are reeling under Serious Funds Problems and on the verge of closure ;

(b) if so, the details thereof ;

(c) whether any analysis has been made into the working of these S.F.Cs ;

(d) if so, the finding thereof; and ?

(e) the steps being taken by the Government to remedy the situation ?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM) :

(a) & (b) Yes, Sir. SFCs became incapable of raising resources at competitive rates, with the introduction of financial sector reforms after 1991. SFCs also faced poor recoveries, rising non performing assets and increasing provisioning requirements. As a result, most of the SFCs have eroded their net worth.

(c) & (d) Government of India had constituted a Committee under the Chairmanship of Shri G. P. Gupta, the then CMD, IDBI for looking into the functioning of SFCs. The Committee recommended that the cost of infusing Rs. 3600 crores should be shared by Government of India (Rs. 900 crores), RBI (Rs. 900 crores) State Governments (Rs. 900 crores), IDBI (Rs. 450 crores) and SIDBI (Rs. 450 crores).

(e) Since RBI and Government of India are not shareholders of SFCs, it was not possible for Government of India to infuse funds into SFCs. However, Government of India worked out a package for restructuring the liabilities of SFCs in association with SIDBI subject to a tripartite Memorandum of Understanding between SIDBI, State Government and SFCs. The package involves the following .

a. Reduction in interest rate on outstanding refinance/LOC by 2%.

b. Rebate of 2% on fresh lending.

c. One year moratorium on repayment of refinance.

d. Restructuring/refinance repayment over 10 years.